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FISCAL IMPACT REPORT

SPONSOR Morales **ORIGINAL DATE** 1/30/18
LAST UPDATED _____ **HB** _____
SHORT TITLE College Affordability Endowment Fund **SB** 218
Chilton

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY18	FY19		
\$2,000.0		Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Similar to 2016 House Bill 98; identical to 2018 House Bill 150.

SOURCES OF INFORMATION

LFC Files

Agency Responses Received

Higher Education Department (HED)

New Mexico Institute of Mining and Technology (NMT)

Agency Responses Not Received

Independent Comm. College

Branch Comm. College

Council of University Presidents

SUMMARY

Synopsis of Bill

Senate Bill 218 appropriates \$2 million from the general fund to the College Affordability Endowment Fund for the purpose of making grants to college students based on financial need, with each student chosen receiving up to \$1 thousand per semester.

The bill specifies that the appropriation is to be made in Fiscal Year 2018; unlike a similar bill introduced in 2016, the words “and subsequent years” has been omitted.

FISCAL IMPLICATIONS

The appropriation of \$2 million contained in this bill is a nonrecurring expense to the general fund. The bill specifies that any unexpended or unencumbered balance remaining at the end of

FY 2018 is to remain in the College Affordability Endowment Fund.

SIGNIFICANT ISSUES

The College Affordability Endowment Fund has been depleted in recent years. When a similar bill was introduced in 2016, the Fiscal Impact Report included the following paragraph:

Under the statute that created both the endowment fund and the scholarship fund, (21-21L-8 NMSA 1978), \$2 million is transferred annually from the endowment fund to the scholarship fund; the statute specifies this amount for the annual transfer unless or until investment revenue from the endowment fund reaches \$4 million annually or the corpus of the fund reaches \$250 million. The balance of the corpus in the endowment currently is approximately \$7.5 million, down from \$95 million in 2007, according to HED. The fund made 5,319 awards totaling \$1,881,864 in FY15.

The independent auditor's audit as of June 30, 2017 indicates the College Affordability Endowment Fund had no revenues during the preceding year and had expended \$1,999,963. Its Endowment Trust is listed as containing \$1,442,520, held in-trust for scholarships, with \$26,453 remaining in cash, indicating that the value of the corpus has fallen by a further \$5.5 million since the similar bill was introduced in the 2016 session.

The auditor quotes statute as stating that "The fund shall be administered by the Department [HED] for distributions to public, post-secondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence and graduation rates, including minority students." The fund has been described as "the only need-based scholarship fund" for New Mexico students.

HED states further, regarding the financial aspects and the history of the College Affordability Endowment Fund,

Section 21-21L-1 to 21-1L-8, NMSA1978 governs the College Affordability Endowment Fund, which is used to award need-based scholarships to students who do not qualify for other state grants or scholarship programs. Grants of up to \$1 thousand per semester are awarded for one academic year and may be renewed annually until the student graduates with a bachelor degree at an eligible institution.

The goal of the corpus was \$250 million but the maximum in the fund was \$95 million in 2007. In early 2010, \$68 million dollars was transferred to the general fund as part of a budget solvency measure. Since then the corpus has been drawn down at the rate of \$2 million per year, in compliance with the requirements of the College Affordability Scholarship Act. However, in FY17, another \$5 million was transferred to the general fund, reducing the balance to \$1.4 million. In FY18 HED requested a \$1.5 million dollar transfer from its holdings in the State Investment Council to support expenditures during the 2017-2018 academic year. Between the fund's drawdowns exceeding its interest earnings and further depletion through these emergency transfers, the College Affordability Endowment Fund balance continues to decline; the FY18 balance is currently \$33,640.

The College Affordability Endowment Fund annual distribution of two million dollars

shall be made from the College Affordability Endowment Fund to the College Affordability Scholarship Fund. The transfer from the endowment to the scholarship fund at a rate of \$2 million dollars annually has been occurring, however, the earnings from the endowment fund have been less than the amount transferred. As a result, the endowment fund corpus has diminished over time.

PERFORMANCE IMPLICATIONS

HED would have to determine when and how much to pay out of the additional funds granted through this bill for scholarships to needy students.

DUPLICATES House Bill 150.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Without the \$2 million appropriation in this bill, LFC indicates that the fund will be depleted by the end of FY18.

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